

Message Text

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TO ALL AMERICAN REPUBLIC DIPLOMATIC POSTS

AMEMBASSY MANILA

AMEMBASSY ABIDJAN

AMEMBASSY BRUSSELS

AMEMBASSY PARIS

AMEMBASSY VIENNA

AMEMBASSY OTTAWA

AMEMBASSY COPENHAGEN

AMEMBASSY HELSINKI

AMEMBASSY BONN

AMEMBASSY TEL AVIV

AMEMBASSY ROME

AMEMBASSY TOKYO

AMEMBASSY THE HAGUE

AMEMBASSY MADRID

AMEMBASSY STOCKHOLM

AMEMBASSY BERN

AMEMBASSY LONDON

AMEMBASSY BELGRADE

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BRUSSELS INFO FOR USEEC, PARIS INFO FOR USOECD, ABIDJAN

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SUBJECT: U.S. STATEMENT AT IDB REPLENISHMENT MEETING

USAFDF/ENNESEY, MANILA FOR USADO

1. THIS CABLE TRANSMITS THE TEXT OF THE U.S. STATEMENT
CIRCULATED BY TREASURY DAS BERGSTEN AT JUNE 29-30 IDB REPLEN-
ISHMENT MEETINGS. SEPTELS CONTAIN WORKING GROUP'S REPORT
OF THE MEETING AND U.S. ANALYSIS.

2. BEGIN TEXT.

IN MADRID I OUTLINED THE UNITED STATES APPROACH TO THE REPLENISHMENT OF IDB RESOURCES AND PRESENTED SOME GENERAL PRINCIPLES WHICH WE FEEL WILL HELP SATISFY THE REAL NEEDS OF LATIN AMERICA AND MAKE THE BANK'S LENDING MORE EFFECTIVE. WE RECOGNIZE THAT THIS WILL ENTAIL IMPORTANT CHANGES IN THE STRUCTURE AND NATURE OF THE BANK'S OPERATIONS AND WE ARE PREPARED TO DISCUSS METHODS BY WHICH THESE GENERAL PRINCIPLES CAN BE IMPLEMENTED.

ALTHOUGH THERE ARE NUMEROUS ITEMS ON THE AGENDA, WE SEE THEM INTERRELATED INTO ESSENTIALLY THREE GROUPS:

-- THE COUNTRY AND SECTOR ALLOCATION AND USE OF BANK RESOURCES;

-- THE EFFICIENCY OF RESOURCE UTILIZATION; AND

-- INCREASING THE AVAILABILITY OF USABLE RESOURCES TO THE BANK.

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ALLOCATION AND USE OF RESOURCES

LATIN AMERICA HAS ACHIEVED SIGNIFICANT GROWTH AND ECONOMIC TRANSFORMATION DURING THE LAST 15 YEARS AS INDICATED BY MANY ACCEPTED MEASURES OF ECONOMIC DEVELOPMENT. THERE WAS BROAD RECOGNITION OF THIS IN MADRID WHERE MANY COUNTRIES STRESSED THE RELATIVE IMPORTANCE OF THE CAPITAL REPLENISHMENT AS CONTRASTED WITH THE FSO.

THE TRANSFORMATION OF LATIN AMERICA HAS CAUSED THE ACCESS CRITERIA FOR THE FSO, ESTABLISHED MANY YEARS AGO, TO BECOME OUTMODED; THEY SHOULD BE REVISED TO REFLECT THE CHANGED CIRCUMSTANCES IN LATIN AMERICA AND THE WORLD.

SINCE FSO FUNDS ARE DESIGNED TO ASSIST COUNTRIES RATHER THAN PROJECTS, WE CONSIDER IT APPROPRIATE TO ADOPT OBJECTIVE PER CAPITA INCOME CRITERIA AS THE BASIS FOR ESTABLISHMENT OF ELIGIBILITY FOR FSO CONVERTIBLE CURRENCY LENDING. WE ENVISION HAVING THREE GROUPS OF COUNTRIES. THE POOREST COUNTRIES, THOSE WITH PER CAPITAL GNPS OF LESS THAN ROUGHLY \$550 IN 1976 DOLLARS, SHOULD HAVE AN ABSOLUTE PRIORITY RIGHT TO FSO FUNDS. AFTER THE NEEDS OF THE POOREST COUNTRIES HAVE BEEN MET, A SECOND GROUP OF COUNTRIES WOULD BE ELIGIBLE TO RECEIVE FSO CONVERTIBLE CURRENCY RESOURCES. THIS GROUP COULD BE COMPRISED OF COUNTRIES WITH PER CAPITA GNPS OF UP TO APPROXIMATELY \$1,000. WITHIN THIS GROUP, COUNTRIES WOULD BE RANKED IN ORDER OF PER CAPITA INCOME AND

PREFERENCE WOULD BE GIVEN TO THE POOREST COUNTRIES FOR PROJECTS WHICH BENEFIT THE POOREST PEOPLE. ANY COUNTRY WITH A PER CAPITA GNP IN EXCESS OF APPROXIMATELY \$1,000 WOULD BE ELIGIBLE TO BORROW ONLY NATIONAL CURRENCY FROM THE FSO.

DIMINISHED AVAILABILITY OF FSO RESOURCES CAN BE COMPENSATED FOR BY INCREASES IN CAPITAL LENDING TO MIDDLE-INCOME MEMBER COUNTRIES WHICH DO NOT ENJOY WIDE ACCESS TO OTHER SOURCES
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OF EXTERNAL CAPITAL. THESE NEEDS CAN BE MET IF THE EXTERNAL LENDING REQUIREMENTS OF THE LARGER AND MORE DEVELOPED COUNTRIES ARE INCREASINGLY ACCOMMODATED WITH ALTERNATIVE SOURCES OF FINANCING. FOR EXAMPLE, IF THE BANK INCREASES ITS EFFORTS TO CLOSE THE GAP BY DEVELOPING NEW SOURCES OF COMPLEMENTARY FINANCING, A SATISFACTORY VOLUME OF LENDING TO THE MOST ADVANCED COUNTRIES CAN BE MAINTAINED WHILE GREATER SHARES OF BANK CAPITAL ARE DIRECTED TO THE MIDDLE-INCOME COUNTRIES. MEDIUM-SIZED PRIVATE BANKS AND OTHER FINANCIAL INSTITUTIONS WHICH ARE NOT NOW PROVIDING FUNDS TO LATIN AMERICA IN SUBSTANTIAL AMOUNTS ARE PRIME CANDIDATES FOR PROVIDING MORE SUCH COMPLEMENTARY FINANCING.

IN ADDITION, WE BELIEVE THAT SINCE THE MORE ADVANCED COUNTRIES HAVE WIDE ALTERNATIVES AVAILABLE THEY SHOULD RELINQUISH ACCESS TO THE EXPORT FINANCING PROGRAM.

THE FUNDAMENTAL PURPOSE OF THE IDB "TO CONTRIBUTE TO THE ACCELERATION OF THE PROCESS OF ECONOMIC AND SOCIAL DEVELOPMENT OF THE REGIONAL DEVELOPING MEMBER COUNTRIES..." REQUIRES THAT THE BANK DEVOTE EVEN MORE EFFORT TO IMPROVING THE LOT OF THE POORER SEGMENTS OF THE REGION'S POPULATION.

IN KEEPING WITH THESE SENTIMENTS, A DEFINITE PROPORTION, SAY ABOUT ONE-HALF, OF TOTAL IDB LENDING DURING THE REPLENISHMENT PERIOD SHOULD BE FOR THE DIRECT BENEFIT OF LOW-INCOME RECIPIENTS, RURAL AND URBAN. IN ORDER TO QUALIFY AS LOW INCOME, WE PROPOSE THAT THE TARGET GROUP BE DEFINED AS HAVING A PER CAPITA INCOME OF UP TO \$200, IN 1970 DOLLARS, OR LESS THAN ONE-THIRD OF THE NATIONAL PER CAPITA GNP, WHICHEVER IS GREATER.

EFFICIENCY OF RESOURCE UTILIZATION
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THE BANK'S EFFORTS TO ASSIST IN THE DEVELOPMENT PROCESS CAN ONLY BE EFFECTIVE IF THEY ARE CONDUCTED WITHIN A FRAMEWORK OF SOUND DEVELOPMENT PLANNING, SENSIBLE ALLOCATION OF RESOURCES AND EFFECTIVE EXECUTION OF BOTH DEVELOPMENT PLANS

AND INDIVIDUAL PROJECTS. A COUNTRY HAS SOVEREIGN RIGHTS TO DEFINE ITS DEVELOPMENT POLICIES AND PRIORITIES. THE BANK, FOR ITS PART, HAS A DUTY, AS A PARTNER IN THE DEVELOPMENT PROCESS, TO ENGAGE IN A DIALOGUE ON THE SUITABILITY OF PROJECTS VIS-A-VIS COUNTRY DEVELOPMENT PLANS AND A COUNTRY'S PERFORMANCE IN MEETING ITS OWN GOALS.

THE IDB ALREADY UNDERTAKES MANY OF THE BASIC STUDIES AND ANALYSES NECESSARY FOR A COMPREHENSIVE APPROACH BASED ON THE RECIPIENTS' NEEDS, PRIORITIES AND DEVELOPMENT EFFORTS. ITS SOCIO-ECONOMIC REPORTS ON INDIVIDUAL COUNTRIES USUALLY CONTAIN A BROAD OVERVIEW AND SPECIFIC INFORMATION ON SUBJECTS SUCH AS BALANCE OF PAYMENTS, DEBT FISCAL SITUATION, COMMENTS ON CERTAIN SECTORS AND DEVELOPMENT EFFORTS.

THE REPLENISHMENT AGREEMENT SHOULD DIRECT THE IDB IN ITS LOAN PROGRAM AND PROJECT ANALYSIS TO TAKE INTO ACCOUNT THE BORROWER'S EFFORTS TO MEET ITS DEVELOPMENT GOALS, THE PRIORITY OF EACH LOAN IN THE OVERALL DEVELOPMENT PLAN OF THE COUNTRY, AND THE ADEQUACY OF THE IMPLEMENTATION OF ANY

PREVIOUS PROJECTS IN THE SECTORS. OTHER CHANGES CAN ALSO BE MADE WHICH WOULD INCREASE THE EFFICACY OF RESOURCE UTILIZATION AND THE AMOUNT OF CONVERTIBLE CURRENCIES AVAILABLE FOR LENDING.

IN RECENT YEARS SUBSTANTIAL AMOUNTS OF CONVERTIBLE CURRENCY HAVE BEEN EXPENDED FOR INDIRECT FOREIGN EXCHANGE COSTS AND FOR LOCAL COSTS WHICH COULD READILY BE ABSORBED BY THOSE BORROWING COUNTRIES WITH LARGE DIVERSIFIED MANUFACTURING AND CONTRACTING INDUSTRIES. THIS HAS RESULTED IN DIMINISH-
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ING AVAILABILITIES OF CONVERTIBLE CURRENCIES FOR THE LESS DEVELOPED BORROWING COUNTRIES. THE IDB CHARTER (ART III, SEC 6) PERMITS FINANCING OF LOCAL AND INDIRECT FOREIGN COSTS WITH FOREIGN EXCHANGE "ONLY IN SPECIAL CASES" AND STATES THAT THE AMOUNT OF SUCH FINANCING "SHALL NOT EXCEED A REASONABLE PORTION OF THE LOCAL EXPENDITURES INCURRED BY THE BORROWER."

WE SHOULD, THEREFORE, ADOPT MEASURES TO LIMIT FINANCING OF THESE COSTS TO THE SPECIAL CASES CONTEMPLATED IN THE CHARTER.

INCREASING AVAILABILITY OF USABLE RESOURCES

THE IDB HAS EXPERIENCED DIFFICULTIES IN UTILIZING ITS NATIONAL CURRENCY RESOURCES. THE ACCUMULATION OF NATIONAL CURRENCY IN THE CAPITAL ACCOUNT HAS BEEN SO GREAT THAT THE BANK HAS FOUND IT DESIRABLE TO LEND ON FSO TERMS.

ALL RESOURCES OF THE BANK SHOULD BE FREELY USABLE BY ALL BORROWERS. ALL CONTRIBUTIONS TO THE REPLENISHMENT UNDER CONSIDERATION SHOULD BE MADE IN CONVERTIBLE CURRENCIES OR IN NATIONAL CURRENCIES WHICH ARE CONVERTIBLE UPON DEMAND BY THE BANK AS NEEDED FOR DISBURSEMENTS. IN ADDITION, GRADUAL STEPS SHOULD BE TAKEN TO CONVERT THE BANK'S EXISTING HOLDINGS OF NATIONAL CURRENCIES INTO FULLY USABLE RESOURCES.

CONTRIBUTIONS OF ONLY FREELY USABLE CURRENCIES WOULD NOT REQUIRE MAJOR CHANGE IN THE DISTRIBUTION OF MEMBERS' SHARES OF CAPITAL SINCE ALL HAVE DEMONSTRATED THAT THEY CAN CONTRIBUTE PAID-IN CAPITAL IN CONVERTIBLE CURRENCY IN SUFFICIENT AMOUNTS. ALTHOUGH THE REGIONAL MEMBERS WOULD NOW PAY IN ONLY CONVERTIBLE CURRENCY, THE BURDEN ON THEM WOULD BE UNCLASSIFIED

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REDUCED BY KEEPING THE PERCENTAGE OF CAPITAL PAID IN AT THE MINIMUM CONSISTENT WITH MAINTAINING THE INTEGRITY OF THE CAPITAL. FOR THIS PURPOSE ALL PAID IN SHOULD BE SUBSCRIBED TO THE INTER-REGIONAL CAPITAL.

TO MAINTAIN THE PRINCIPLE OF EQUITABLE BURDEN SHARING, ALL COUNTRIES SHOULD CONTRIBUTE TO THE FSO IN FREELY USABLE CURRENCIES, IF ONLY MODESTLY. ANY ADJUSTMENT IN THE SHARES OF CAPITAL AND FSO SHOULD TAKE INTO ACCOUNT THE BURDEN PLACED ON THE POORER MEMBERS WITHOUT CHANGING SIGNIFICANTLY THEIR RELATIVE VOTING POWER.

WE ARE PREPARED TO DISCUSS THESE QUESTIONS IN DETAIL OVER THE NEXT TWO DAYS AND TO CLARIFY OUR OBJECTIVES. I WOULD LIKE TO EMPHASIZE THAT WE ARE FLEXIBLE ON THE METHODS OF ACHIEVING OUR OBJECTIVES AND WOULD WELCOME ALTERNATIVE SUGGESTIONS FROM OTHER MEMBERS AS TO HOW TO DO SO.

AS I STATED IN MADRID, THE UNITED STATES WILL MAKE EVERY EFFORT TO COMPLETE THE NEGOTIATION OF THE REPLENISHMENT BY SEPTEMBER. IN ORDER TO DISCUSS POSSIBLE LEVELS OF REPLENISHMENT, HOWEVER, WE MUST ACHIEVE SUBSTANTIAL PROGRESS TOWARD FINAL AGREEMENT ON THESE POLICY QUESTIONS. WITHOUT FURTHER ADO, MR. CHAIRMAN, LET US PROCEED.

END TEXT. VANCE

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